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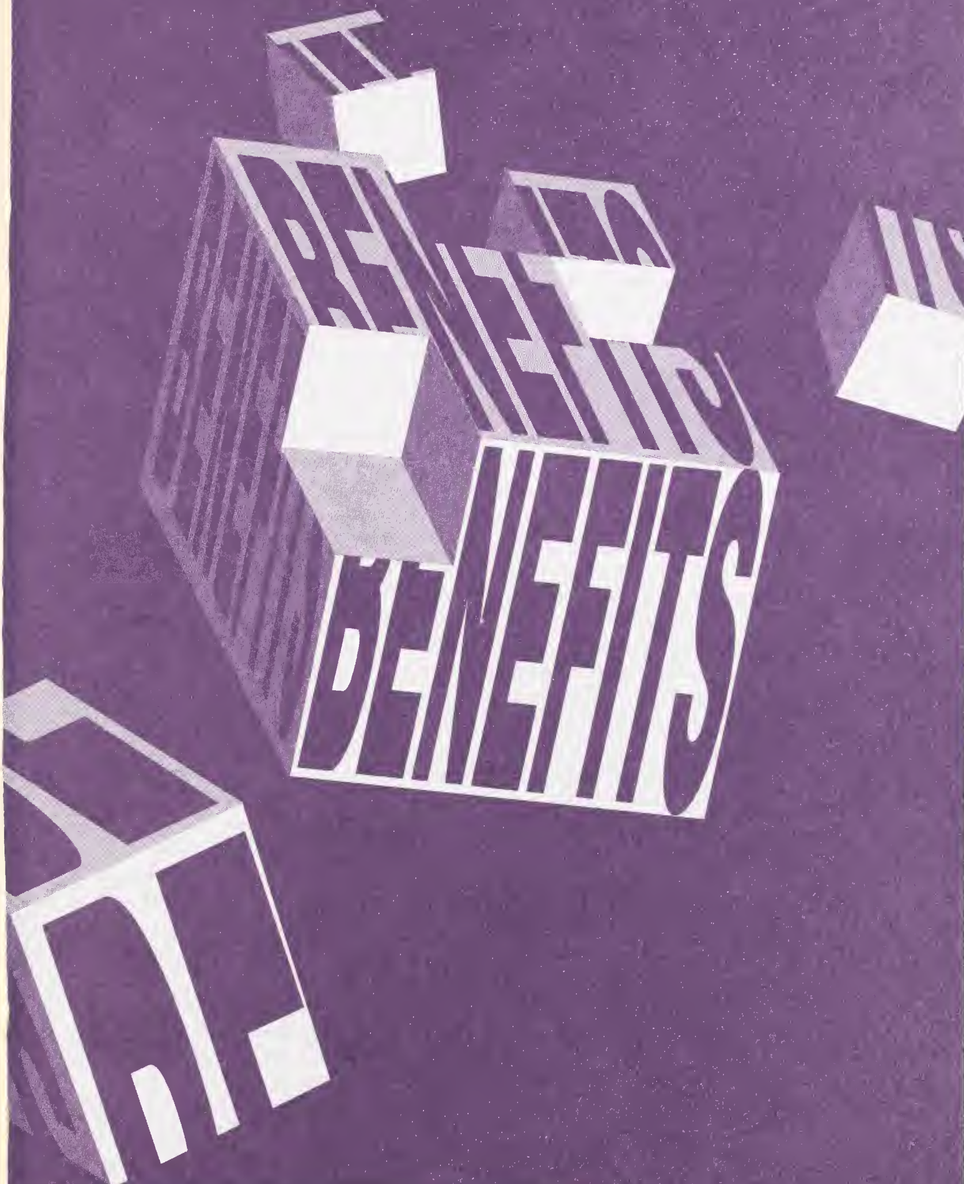
ACS Service
Report 36

Guide to Designing Benefit Packages for Cooperatives



Preface

This report briefly describes factors and methods used to evaluate jobs; set pay structures; design benefit plans; and finance benefit plans for cooperative employees. The terms "wages," "salaries," and "pay" are used interchangeably.

While this report may provide general guidelines, it does not adequately address **all** of the unique requirements, skills, or risks associated with a given position or cooperative. Newly organized cooperatives must consider and project all types of costs such as salaries for all employees, potential sales, and expenses. Projections for sales and salaries for employees should be conservative. Adjustments may be made by newly organized or existing cooperatives when replacing employees who have retired or left the organization.

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Guide to Designing Benefit Packages for Cooperatives

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A major challenge for all cooperatives is attracting and keeping productive people. Cooperatives must offer employees compensation commensurate with their experience and skills. Compensation can be both direct (salaries and wages) and indirect (benefits). It is important to provide a proper mix of direct and indirect compensations to attract and keep competent employees who can enhance margins and membership savings for cooperatives.

There are no universal norms to guide the choice of what to pay any given employee, but some internal and external factors should be considered. Cost management (sales and operating expenses), job responsibilities, employee's educational background, experience, and/or skill, and number of employees needed are internal factors that may influence salaries and benefits. External factors include Federal and State Government policies and regulations, labor market, competitive environment, etc. This report will touch on internal and external factors, and general information that could affect decisions of management in setting salaries and offering benefits.

EXTERNAL FACTORS

External factors are anything outside and independent of the cooperative that could influence the benefit packages. External factors affecting pay structures are the competitive environment, labor markets, and Federal and State Government policies and regulations. Other organizations in

the same geographic area must be considered when setting salaries and benefits because they are competing for the same labor market. That market includes all noninstitutional people over the age of 16 who are looking for employment.

Laws and regulations must also be considered because they set guidelines for required or prohibited practices. Some major U.S. employment laws stemmed directly from economic conditions which prevailed before the 1930s. These laws have several purposes: (1) expanding employment; (2) compensating workers at levels that allow them to maintain a minimum standard of living; (3) providing income maintenance during periods of job loss, disability, or retirement; and (4) promoting employees' abilities to bargain collectively. [1]

Examples of Federal wage and hour laws include: Fair Labor Standards—provides a minimum wage and provided for overtime pay; Civil Rights and Equal Pay Act—protects employees from discrimination; Social Security Act—provides income security for retirees, dependent survivors, and disabled persons insured by payroll taxes on their earnings; Federal Unemployment Act—provides for persons who have been employed and lost their jobs through no fault of their own; Workers Compensation—provides salary (pays two-thirds of an employees' weekly wage) for work-related accidents or illnesses; and Employment Retirement Income Security Act (ERISA)—provides a variety of formulas for vesting of retirement benefits after a certain length of service.

These Federal Government acts are highlights of regulations that management must be aware of when making compensation decisions. Many other laws and regulations also are standards for fair compensation and working conditions.

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[1] Personnel/Human Resource Management, Herbert G. Henneman, Donald P. Schwab, John A Fossum, and Lee D. Dyer. Richard D. Irwin, Inc., Homewood, Illinois 60430.

INTERNAL FACTORS

Internal factors are those dependent on the conditions, needs, and desires of the cooperative. Internal factors include not only business considerations such as cost of equipment, administrative cost, and salaries, but also factors that apply to the employee. These factors include the educational background of employee, skill, physical ability (as required by job), and experience.

JOB EVALUATIONS

Management may use various tools to evaluate its workforce to develop an equitable pay structure. One invaluable tool is the job evaluation. A job evaluation analyzes, describes and values the duties of a job, its authority, relationships, skills required, and conditions of work compared with other jobs in the organization. Fairness is essential to job evaluations for both the employee and the cooperative.

Job evaluations are also used to develop job descriptions and specifications, and to determine the value of them in relation to all jobs within an organization through ranking. There are three significant steps in this evaluation process (fig. 1).

Step 1—Formal or informal preliminary planning. The informal approach involves an intuitive ranking of jobs. The formal approach is more costly and involved. It is a relatively systematic application of standards and decision rules to rank or rate jobs. An organization may decide to make or buy a plan. The manager in small cooperatives and personnel director in larger ones usually direct this effort.

Step 2—Selecting a job-evaluation method. There are several job evaluation methods (fig. 2). They include:

Ranking—Jobs are arranged by a committee of management and employee representatives in a simple highest to lowest rank. Each job is compared with the preceding one to determine which is more important or difficult. This step continues until all jobs have been ranked. Disadvantages to this

Figure 1— **Steps in Evaluating Jobs**

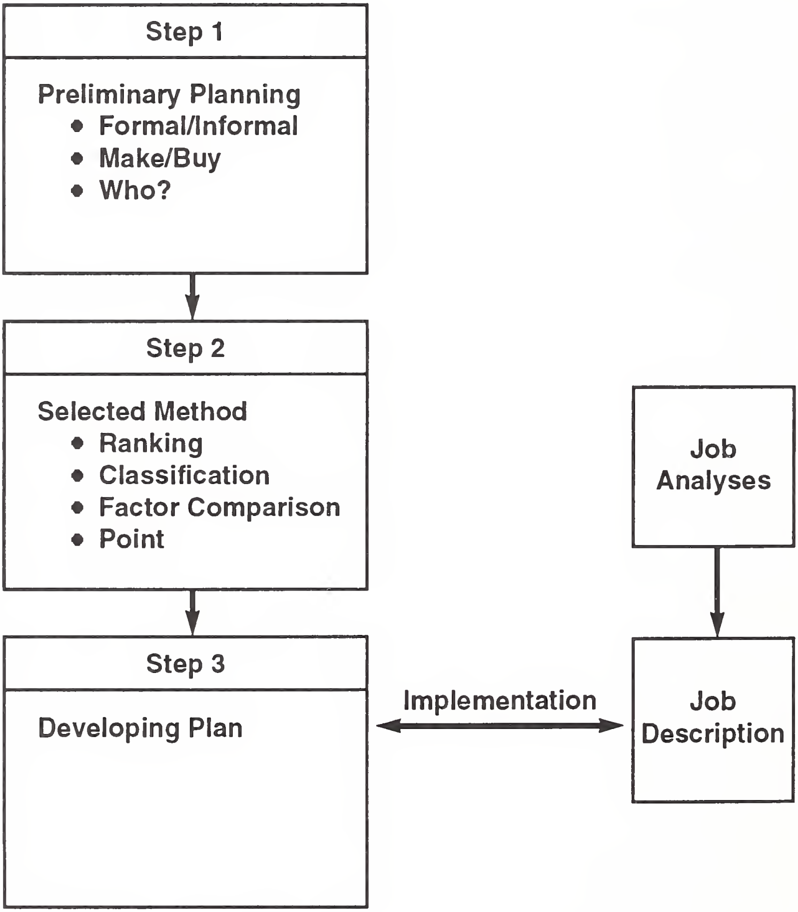


Figure 2— **Advantages and Disadvantages of Job Evaluation Methods**

Job Evaluation Method	Advantages	Disadvantages
Ranking	1. Least complex method	1. Unmanageable with large numbers 2. No definite or consistent standards 3. No knowledge of distance between the ranks
Classification	1. Equitable	1. Same as ranking method 2. Difficult to classify jobs
Factor Comparison	1. Requires a set of standard jobs 2. Tailor made approach 3. Determines relative value of each job 4. Logical	1. Complex
Point	1. Widely used 2. Most stable 3. Minimizes rating errors	1. Expensive 2. Time consuming to implement and maintain

method include: a) unmanageable with a large numbers of jobs; b) no definite or consistent standards to justify rankings; and, c) no knowledge of distance between the ranks.

Classification—Grades are established to identify common job denominators such as skill, knowledge, and/or responsibility. The goal is to create a number of distinct classes or grades of jobs. Jobs are ranked in their overall order of importance according to chosen criteria. Each job is placed in an appropriate classification by comparing each job description against the classification description. This method has the same diadvantages as the ranking method. It's difficult to classify jobs. This method has proven to be successful for millions of jobs in the Federal Government.

Factor comparison (quantitative method)—a select group of key jobs are evaluated in an organization. They are then used as the standard. Key jobs should be well known in the community with established pay rates and represent a cross-section of all jobs to be evaluated—from lowest to highest paid. It is most important to evaluate the least important jobs and cover a full range of requirements of each job factor chosen by a committee representing workers and management. Job criteria are established by mental requirements, skills, physical requirements, and working conditions.

After key jobs are identified and criteria chosen, committee members rank them based on the established criteria. These jobs are known as the key job anchors. Next, the committee agrees on a base rate (hourly basis) for all key jobs. The hourly rate is then assigned a dollar amount per classification (table 1).

Finally, the committee must compare overall judgments and resolve any discrepancies. The disadvantages are that it's complex, uses the same criteria for all jobs (usually jobs differ across and within an organization), and depends on key job anchor points. The advantages are that it requires a set of standard jobs for each organization; it is a tailor-made approach; it

meets specific needs of each organization comparing job and determines relative value; and it is a logical method.

Point—a group of jobs are classified into identifiable criteria (skill, effort, and responsibility). Points are allocated depending on the importance of each criterion to performing the job, appropriate weights are given, points are summed and jobs with similar point totals are placed in similar pay grades. Decided next is the degree of skill/responsibility required to accomplish a job. For example, each job may be evaluated on the degree of education required to perform successfully, e.g., first degree might require the equivalent of 10 years elementary/secondary education; secondary degree the equivalent of 4 years of high school, etc. (table 2). This is the most stable method. Even if a job changes, rating scales stay intact. This minimizes rating errors. This is a complex method and is costly and time consuming to develop. Key criteria have to be clearly identified. Raters must agree on the degree of importance for each factor; a weight established; and point values assigned to each degree. Although this method is expensive and time consuming to implement and maintain, it is the most widely used method.

Step 3—Developing the plan. Before developing and implementing plan, the cooperative should assess what positions need to be filled and be familiar with the content of all

Table 1—Factor Comparison Method

Job	Hourly pay	Mental require-ments	Skill require-ments	Physical require-ments	Respon-sibility	Working conditions
	Dollars					
General Manager	13.65	4.00	4.40	1.25	3.00	1.00
Office Manager	13.40	3.00	4.40	1.80	2.30	1.90
Division Manager	11.10	2.25	3.00	1.80	2.30	1.75
Field Representative	8.65	3.00	2.00	.50	2.15	1.00
Sales Representative	8.45	2.25	1.50	1.70	1.10	1.90

jobs. Next the cooperative must decide on how to evaluate each job. Evaluation methods were described earlier.

Standards are then set for each job in the form of compensable factors. These are job dimensions for which the cooperative chooses to pay. Factors include knowhow, problem solving, and accountability. Once factors are decided, they are defined, weighed, and broken into degrees and assigned point values. Job importance or contribution should reflect the cooperative's goals and be meaningful to employees in their own estimations of job worth.

Factors, degrees, definitions, and weights are included in a job-evaluation manual. The manual should be standard and include the compensable factors, definition of factor, weight (e.g., 20 percent out of possible 100 percent), autonomy, complexity of duties, nature of supervision, number of subordinates, contacts and communications, and pressure and volume of work.

Table 2—Example of a point method—sales representative

Factor	JOB CLASS: Sales Representative				
	1st Degree	2nd Degree	3rd Degree	4th Degree	5th Degree
			Points		
Skill					
1. Education	22	44	66	88	110
2. Initiative	14	28	42	56	70
Responsibility					
3. Safety of others	5	10	15	20	25
4. Work of others	7	14	21	28	35
Total	48	96	144	192	240

ESTABLISHING THE PAY STRUCTURE

The pay-setting process involves two major decision areas. One deals with establishing wage(s) or salary(ies) attached to various jobs involved (i.e., with the pay structure). The other establishes pay that each person will receive within the prevailing structure.

A completed job evaluation may become the foundation for developing an organization's pay structure. Wages within specific communities or other cooperatives, along with job evaluations, should be considered when setting wages.

Wage Surveys

Wage survey data can be obtained from Department of Labor's Bureau of Labor Statistics. It regularly publishes wage data by geographic area, industry, and occupation. Other associations also conduct surveys they make available to the public. An organization may conduct a wage survey or use surveys from other organizations such as the American Management Association or the American Compensation Association to determine the rates other organizations in the same labor market are paying for similar jobs.

Conducting your own wage surveys has its advantages because you are not limited in what you can ask. Mailing questionnaires or personal and telephone interviews may be used to get survey data. Table 3 shows a comparison of survey data of wages/salaries to facilitate analysis and interpretation.

Wage Structure

This step includes plotting a wage curve that helps in developing the organization's wage structure. For example, pay grade 1 may range from 0 to 50 points, pay grade 2 from 51 to 65 points, etc. Figure 3 shows this using data from table 3. There is some range overlap.

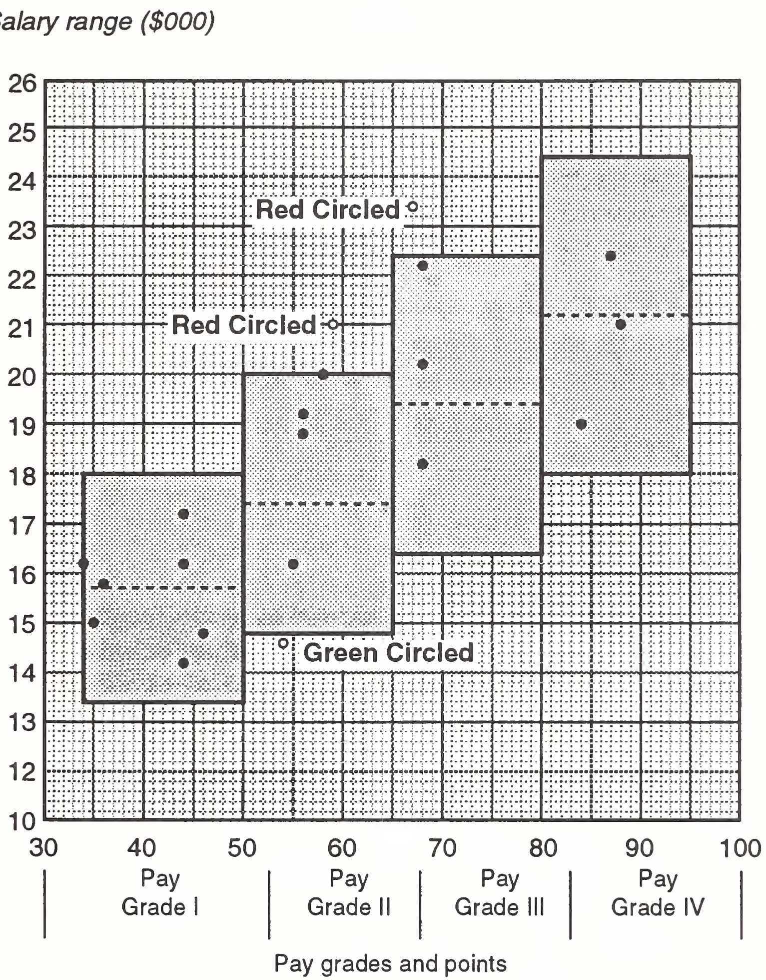
Generally, organizations design their wage structure with

Table 3—Example of survey data[1]

Benchmark jobs and point values		Develop pay grades		Survey data				
Jobs	Points	Grade	Points	Minimum	Midpoint	Maximum	Adjustments	Rate ranges midpoint +/- 15 pct.
				Dollars				
A	37							
B	45	I	35-49	16,100	17,600	19,100	15,500	13,200-17,800
C	49			(12,500)	(14,400)	(16,300)		
D	56							
E	58	II	50-64	18,000	20,100	22,200	17,400	14,800-20,000
F	59			(13,700)	(16,000)	(18,300)		
G	69	III	65-79	19,500	21,800	24,100	19,300	16,400-22,200
H	87			(15,000)	(18,100)	(21,200)		
I	90	IV	80-94	21,000	24,200	27,400	21,200	18,000-24,400
J	91			(17,500)	(20,000)	(22,500)		

[1] Adapted from T.H. Patten, Jr., Pay: Employee Compensation and Incentive Plans (New York: Free Press, 1977).

Figure 3— Wage Structures[1]



----- average salary

[1] Based on salary data in table 3. Each point represents minimum, midpoint and maximum salary per pay grade.

ranges in each grade to reflect different tenure in positions and levels of performance. An overlap of grades allows employees who reach the top of their grade to increase their pay only through moving to a higher grade.

When a pay rate is too high, it should be identified as a "red circle" rate. If this is the case, then the pay is frozen or below average increases are awarded until the rate is within the normal range. In some cases a wage rate is higher than normal but is not "red circled." This occurs when there is a need to attract or keep individuals with specific or unique skills.

The opposite of a "red circled" pay rate is a "green circled" pay rate. This rate depicts an undervalued job with a wage rate that is too low.

BENEFITS

Benefits are indirect compensation and are included when examining total compensation packages. Benefits should be effectively planned, coordinated, and balanced to help meet the needs and desires of employees and, at the same time, meet the employer's compensation objectives. This system should be designed so the lowest pay structure will motivate and retain personnel and be perceived as fair by employees, attract necessary professional employees, provide incentives for above-average performance, be equitable among employees, be cost-efficient (no duplication in protection provided), and enable the cooperative to increase margins and meet social obligations to employees and the general public.

Businesses may follow a number of avenues when offering benefits. Laws and regulations may govern some aspects of benefit plans offered. Therefore, benefit management should begin with examining the business environment and local and Federal laws and regulations. This is the first step in developing a total compensation approach that enables the cooperative to determine precisely how much it can afford.

This type of planning can help eliminate open-ended cost liability for certain benefits and make planners aware of cost escalation of retirement and health benefits. For example, health issues spill over from direct medical services into disability, workers' compensation, and illness-related absenteeism which affects paid time off and productivity.

Retirement

Providing retirement income through the employee benefit mechanism is a common practice. There are several forms of retirement plans—pension plans, thrift or savings plans, group individual retirement account (IRA) plans, simplified employee pension plans, tax-deferred annuities (401k), etc. The objective of providing retirement income has become increasingly important because people are living longer and want to enjoy their retirement years.

The first step for employers is to establish retirement objectives. There are several considerations an employer must determine. Factors to consider include the approximate percentages of employees' pay that go to Federal, State, and local income taxes (these will probably be reduced after retirement), Social Security taxes/benefits, age, years of service, or a combination of age and service, and employee income. The next step is to determine how much the employer is willing or able to provide.

A pension plan may be qualified or nonqualified. A qualified plan is intended to be permanent, cannot be diverted to other purposes, and should provide full vesting for employees at normal retirement age. A business necessity may require the employer modify or terminate the plan, but it must meet minimum funding requirements. The pension plan must be an exclusive benefit of employees and their beneficiaries, cannot discriminate regardless of job title or pay, must be in writing, should be primarily for retirement benefits so death benefits can be included, and must provide determinable benefits with

common eligibility requirements (minimum age and/or service, etc.).

Advantages of a qualified plan are:

1. The employer (within limits) can deduct from the tax liability contributions to the plan as necessary and reasonable business expenses.

2. Investment earnings on pension plan assets are generally not subject to Federal income taxes until benefits are paid to retirees.

3. Employees are not taxed on contributions made by employer until they receive benefits.

4. Avoid income tax to the participant or his/her beneficiary if distributions from a qualified retirement plan are taken in a lump sum. Qualified retirement plans can be further classified into either defined contribution or benefit plans. A defined contribution plan provides for an individual account for each participant. Benefits are based solely on amounts contributed to a participant's account, on any income, expenses, and gains and losses of the account, and on any forfeitures of accounts of other participants that may be allocated to the participant's account.

Defined contribution plans include money purchase pension plans, target benefit pension plans, profit-sharing plans, thrift savings plans, employee stock ownership plans, and tax-credit employee stock ownership plans. Advantages of this are that the employer's maximum cost is fixed, predictable, and a percentage of compensation; less extensively regulated under Employment Retirement Income Security Act (ERISA) of 1974; better understood and appreciated by employees; and offers greater flexibility in making employees' account balances available to them during their working years as loans from the plan or in-service withdrawals from certain types of these plans.

The *defined benefit* plan provides participants with a specified, definite benefit at retirement. A major consideration

when using the defined benefit plan is to decide on which "pay" will be used for pension purposes. A ***final average pay plan*** bases pension benefits for all years of credited service on salary or compensation within a specified period of time that is reasonably close to retirement. For example, average salary over the last 3 to 5 years of service up to age 65 or the 5 years of highest earnings within the last 10 years of service up to age 65, etc. A ***career-average pay plan*** bases the pension benefit on the employee's pay during his or her career as a participant. Costs of plan are more predictable and contained during inflationary periods.

Defined benefit plan advantages are:

1) employer designs pension plan formulas to achieve specific retirement income targets in a relatively accurate fashion (although it does not seek to guarantee employee participants any specified level of retirement benefits);

2) provides for an adequate retirement income for employees who are older when the plan is established, or who are older hires because it is relatively easy for a defined benefit plan to give credit for employees' past service in its benefit formula;

3) may relate pension benefits more closely to retirement income objectives because they can use final average pay benefit formulas that compute pension benefits based on an employee's compensation for the years closest to his or her retirement;

4) employer benefits from favorable investment experience on plan assets; and

5) easier for employers to administer because contributions and investment incomes do not have to be allocated to individual employee participants. However, there may be some increased administrative costs for these plans.

The retirement benefit is a stated or fixed factor, while the contributions to the plan necessary to produce those

defined benefits are variable. Four basic types of defined benefit formulas can be applied to retirement plans:

1) flat amount—provides the same dollar benefit per month to all employees regardless of age, earnings, and length of service. For example, all retired employees might be paid a flat amount of $300 a month (this formula may have a service requirement);

2) flat percentage of earnings—provides a benefit of 20 to 50 percent of an employee's earnings, based on employee's average earnings or earnings in the last few years prior to retirement;

3) flat amount per year of service—provides a stated amount multiplied by number of years of service (based on specified number of hours) and the employee must receive proportionate credit (past service) if they worked at least 1,000 hours in a 12-month period; and

4) percentage of earnings per year of service/unit, credit/past and future service—provides retirement based on and equal to some fixed percentage times the number of years of credited service (past and future). This formula is used when adopting a new retirement plan. Therefore, this formula is used to distinguish between past and future service. Past service credits earn a lower percentage benefit than future service. Future service occurs after the effective date of the new plan. Some limits can be placed on the number of years of past service credit that can be granted.

Benefit formulas for a contribution plan may be integrated with Social Security. This plan considers contributions to Social Security when establishing the retirement benefit. There are three methods that may be used to integrate Social Security receipts with cooperative pension plans. The *offset* method is calculated regardless of Social Security benefits. After cooperative retirement benefits have been calculated, a percentage of a participant's Social Security receipts is deduct-

ed to determine the actual pension benefit payable from the private plan.

The *excess* method considers the benefits or contributions based on the participant's compensation in excess of an integration level under the plan. Although the *step-rate* excess method is similar to the excess approach, it provides a smaller benefit payable on earnings up to the Social Security integration level, and a larger benefit payable on earnings above the level. Some plans use combinations or variations of the three integration provisions.

A nonqualified plan allows an employer to exercise considerable discretion as to who is covered, permits funding flexibility, and allows many other flexibilities in the retirement plan design.

Vesting A final discussion about retirement benefits will be on vested benefits. Vesting is the nonforfeitable interest participants have in their account balances under a defined contribution plan or in their accrued benefits under a defined benefit plan resulting from employer contributions.

Vesting refers to the right of participants to receive their accrued or accumulated pension benefits at normal or early retirement ages, regardless of whether or not they are employed by the particular employer at that time. ERISA mandates minimum vesting standards for qualified retirement plans. The law requires a plan to use one of three minimum vesting schedules. Which one is left to the employer's discretion. The three alternative minimum vesting schedules specified in ERISA are:

10-year vesting—This schedule requires full vesting of all accrued benefits and/or account balances after a participant has accumulated 10 years of recognized service. This type of schedule is known as "cliff vesting." It is the most common type of vesting provision and the least costly for employers.

5-to-15 year vesting—This minimum standard applies to the graded vesting concept. The percentage of all accrued ben-

efits and/or account balances that are vested increases with employee service according to some graduated scale. At least 25 percent of a participant's accrued benefits and/or account balances must be vested after 5 years of service, another 5 percent each year for the next 5 years, and then a final 10 percent each year for the following 5 years. Benefits are fully vested after 15 years of recognized service.

Rule-of-45 vesting—Under this minimum vesting schedule, accrued benefits and/or account balances of participants with 5 years of service must be 50 percent vested when their attained age and years of service equal 45. For any subsequent years, an additional 10 percent of all benefits are vested until reaching 100 percent vesting. Benefits must be 50 percent vested after 10 years of service with a 10 percent additional vesting for each year of service after that.

Unemployment Plans

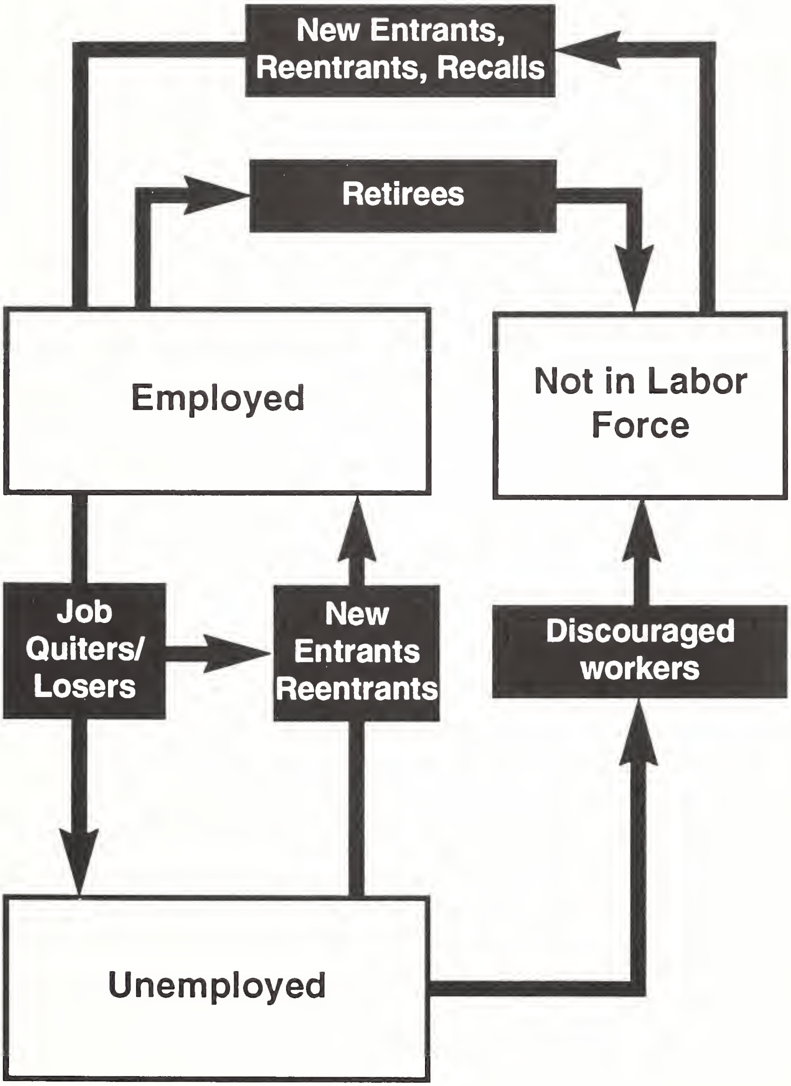
The labor market continuously changes and adjusts. People move among three categories—employed, unemployed, and out of the labor force (fig. 4).

The unemployment compensation system resulted from the Great Depression of the 1930s. Its purpose was to provide a period of income for eligible workers temporarily unemployed through no fault of their own. Today, the system still deals with problems of unemployment.

Following are some major types of unemployment:

1) Cyclical unemployment—Relates to the business cycle and occurs during the downturn (recession or depression). The Federal-State unemployment compensation system acts as an automatic stabilizer. A business cycle downturn causes increased unemployment and the payment of unemployment compensation benefits without further governmental action. This system is also considered countercyclical. During a downturn, the system pays out more benefits than it collects

Figure 4— **Labor Force Flows**



downturn, the system pays out more benefits than it collects in taxes, while the reverse is true during recovery.

2) Frictional unemployment—This kind is always present and involves the time it takes for workers to move from one job to another.

3) Structural unemployment—Tends to be long-term and results from changes that affect certain workers or categories of workers in the economy or business climate.

4) Seasonal unemployment—This type is common in agricultural industries with peak harvest-time labor demands.

5) Personal factors unemployment—Results from discrimination against certain racial, ethnic, or other groups. Other factors may be lack of marketable skills, poor work habits, lack of job-getting skills, and other similar employment hindrances.

6) Secular or long-term unemployment—This results when the economy does not expand fast enough to absorb all the new entrants into the labor force.

Certain criteria entitle workers to be eligible for unemployment benefits. These are: employees who were paid wages of $1,500 or more in any calendar quarter or at any time worked 20 calendar weeks; those available but unable to work; and those actively seeking work. Benefits are generally paid weekly. The amount is determined from a claimant's earnings and employment during a base period (the first four of the last five completed calendar quarters prior to the claimant's benefit year) of employment.

The amount of benefit is a formula tied to wages during the base period or some portion of that period and multiplying a fraction by the claimant's earnings during the quarter of the base period in which the claimant's earnings were highest. For example, if a claimant had worked all 13 weeks of his or her high quarter, the 1/26 fraction would produce a weekly benefit equal to about 50 percent of earnings. All States provide for minimum and maximum weekly benefit amounts.

Health Insurance

Health insurance wasn't established until 1929. At Baylor University Hospital in Texas, Blue Cross developed a plan to cover a group of local school teachers. The first hospital and medical insurance plans were limited in what they offered. Hospital care was for a specified number of days and was based on flat-dollar amounts for a list of surgical operations. Maternity benefits were seldom offered. Today, most employees see medical and hospital insurance as a "real" benefit even if they never use it.

Health insurance is a current benefit—useable at any moment. Health insurance is generally offered to the employee, the spouse, and dependents. It was originally considered a benefit. Employees often paid part of the premium.

Although it is becoming more common for employers to pay the full cost after a month or less of service, most costs are shared by the organization and the employee. Another way to share costs are deductibles and coinsurance or copayment. Deductibles are a way to increase the percentage of the costs of health care paid by employees. Coinsurance or copayment is another common cost-sharing technique. Often, the plans pay a fixed percentage and the patient covers the balance. Most health plans have maximum coverage.

Most health protection plans fall into two categories—auxiliary health services (dental, vision care, and prescription drugs) and preventive health programs (physical examinations, "wellness" programs, and employee assistance programs).

Varied services are covered by health plans. Surgical bills, anesthesia charges, doctors' hospital visits, x-rays, emergency-room treatment, intensive care, private nurses, ambulance service, blood transfusions, oxygen, casts and splints, and other expenses can be paid for by health plans.

Life Insurance

Life insurance was one of the first benefits employers offered their workers. Term life insurance usually depends on the employee's direct pay and is noncontributory. This is the simplest and cheapest variety. It will pay only a fixed amount to the beneficiary in the event of the employee's death.

Most group life insurance policies allow survivors to maintain their standard of living, although this isn't very realistic. This "survivor's benefit" helps, but in itself cannot maintain much of a standard of living for very long. Many group policies also permit employees to cover spouse and children with separate life insurance.

Disability Insurance

Disability insurance began with the European guilds and fraternal societies. They were often set up to care for members afflicted with a crippling disability, commonplace in that time.

There is a gray area surrounding disability. The definition of "disability" is vague. Does it mean not being able to work at your regular occupation; being unable to work at a similar but less physically demanding job for which you are qualified; or being totally unable to work? Disability during the first 2 years is defined as being unable to do your regular job. After 2 years, benefits end if you can physically perform some other job for which training and experience have prepared you. Some disability programs may provide for rehabilitation and/or retraining workers for new jobs that will take them off the disability list.

Although seldom used, disability is one of the most important benefits, but in most cases it is listed as optional. It protects a group of people, at very low cost, against a potentially devastating disaster to one of them. Administration is relatively simple, although the few claims that do occur may involve complex medical ramifications and long-term payment responsibilities and monitoring.

The disability premiums are relatively modest and organizations pay the entire premium. The insurance can also be paid in full by the employees who want this kind of coverage or the employer and employee may split the costs. Monthly benefits are usually directly related to the salary the employee was making at the time of disability. The monthly amount is calculated as a percentage of pay. Sixty percent is the most common. Coverage usually continues as long as the disability does or until the disabled employee is eligible for benefits from the organization's pension plan.

Some organization disability plans may have to be coordinated with other disability programs—Social Security's disability insurance, State disability programs, and workers' compensation. This is done to make sure that someone doesn't obtain benefits from several sources that together are more than 100 percent of what the previous salary had been.

Paid Days Off

Paid days off are a standard practice and probably the most cost-effective benefit of them all. Paid time off may include sick pay/short-term disability, holidays, and personal time off/vacations.

Sick Pay/Short-term Disability Eventually, almost every employee will use sick pay. An allotted number days of sick pay is given for a specified time period. Unused days can be carried from year to year, or a use-or-lose policy may exist. The amount of sick days allowed is generally linked to the length of service.

Holidays Most employees take holidays for granted. The United States has six national holidays—New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving, and Christmas. Others sometimes offered include the birthdays of Washington, Lincoln, and Martin Luther King

plus Good Friday, Columbus Day, Election Day, and Veterans' Day. Other paid days may include jury duty or death of a family member. In most cases, employees must have worked the day before and the day after the holiday to establish holiday pay and prevent abuse.

Vacations Primarily, vacations are used by employees as a time to enjoy, rest, relax, and "get away" from the pressures of work. Sometimes employees use vacations to handle family or personal problems. It is important that the vacation policy be clearly understood by everyone.

The amount of vacation time earned depends on length of service. The cost of vacations to employers may vary depending on how work is done while employees are on vacations. For some job categories, businesses must hire substitutes or pay overtime. Other jobs may provide services at distinct periods of time so employers have flexibility to be without such employees during vacations. In some cases, employees may complete work before or after their vacation, making the true cost of vacations close to zero.

Educational Assistance

Educational assistance comes in many forms. Under tuition reimbursement, all or part of the expense of job-related educational courses taken by employees are refunded or repaid by the employer.

Here are some questions to answer when setting up a tuition-based reimbursement plan: 1) Should all or part of tuition costs be paid? 2) Who should pay for fees and books? 3) Should courses be limited to job-related skills? 4) Should limits be made on course loads or total dollar amount of tuition? 5) Should student be required to achieve a minimum grade in course? 6) Should program include paid time off when needed to take courses available during work time? 7) Who approves classes for employees? 8) What are objective of

program (maintain present skills or increase employee productivity and promotability)? and 9) Who's eligible? Tuition reimbursement can be a benefit that attracts ambitious young people because it provides a way to begin a career and also continue an expensive education.

Other forms of educational assistance are financial backing to a college scholarship program or educational loans for the children of employees. In-house courses are another form of educational assistance. They make use of the organization's own resources. Classes are taught by qualified organization personnel or outside instructors and usually on the organization's premises.

Evaluating the Employee Benefit Plan

Employee benefits are increasing faster than direct pay. This can become a problem for some small cooperative businesses. Therefore, benefit planners should consider several factors in developing benefits programs—employee needs and expectations, cost escalation, tax considerations, benefit quality, and actions of competitors.

When designing and evaluating benefit plans, emphasis should be placed on employees' needs rather than on compensation. Benefits should be competitive with other organizations in the same industry and/or with others in local labor markets, consistent, and coordinated to prevent duplication. They should contribute to employees' morale, attract and recruit to meet personnel and recruitment objectives, satisfy legal requirements, and satisfy the employees' needs.

There should be some balance when planning benefits to meet the needs of both the employee and employer. For example, a large, well-established employer in a growing mature industry may take a relatively liberal approach to employee benefits. In highly competitive industries or those beset with cyclical fluctuations, employers may not be willing to add to their fixed costs by adopting liberal and costly employee ben-

efit programs. Each organization must determine the relationship between benefit costs and employee compensation. Subsequently, benefits should not consume so much of the total income that they interfere with provisions for adequate direct pay and operations.

There are two major benefit philosophies: 1) the compensation-oriented benefit philosophy relates employee benefits primarily to compensation, in that benefits follow compensation level; and 2) the benefit-oriented (needs) philosophy that focuses on employee needs rather than compensation. Most employee benefit plans are a compromise. For example, group life insurance and pension benefits are related to compensation. Medical expense benefits are related to needs.

Several questions should be resolved when planning a benefits program: How does a cooperative choose what benefits to be provide? Who will pay for the benefit? Which dependents of active employees should be covered? Should retirees/spouses/dependents be covered? Should survivors of active/retired employees be covered? What coverage, if any, should be extended to persons on disability? What coverage should be extended for laid-off employees? Should coverage be limited to full-time employees?

These can be answered through questionnaires and interviews of managers and/or employees; monitoring benefit activities of other organizations; using probationary period for new benefits; looking at employee participation in various benefit plans; through Government agencies; and reading benefit publications.

Finally, no matter how carefully a benefit plan is assembled, it should be flexible. As things change—cooperatives, the economy, and people—benefits must also change to match evolving circumstances. The biggest challenge to cooperatives is to constantly review and revise rather than just incorporate or add new plans. Ways a cooperative manages benefit plans are:

1. Stay up-to-date—A cooperative can't exist in a vacuum, but be aware of outside influences and deal with situations as they arise. Some outside influences include competition, community, Government, and the economy.

2. Get feedback—A cooperative should stay in touch with employees' feelings about certain benefits. A cooperative may accomplish this effectively by conducting a formal survey. Sometimes, however, this is not the answer, since a badly designed survey may produce inaccurate information. Panel discussions and focus groups can also be used to assess employee benefit preferences.

3. Plan ahead—Careful planning ensures that certain benefits are monitored, thereby keeping abreast of changing times and shifting conditions. This can be done by establishing goals—know the goals of the cooperative; know what benefits will accomplish those goals; and know what specific benefit plans will do that job best. Next, mesh the cooperative's basic benefit objectives together with specific benefit plans and attitudes of employees toward the benefits they receive.

Designing Employee Benefit Plan

The trend is toward giving employees more flexibility in choosing their benefit plans. Benefit designs a cooperative may choose to offer employees are:

1) traditional design with minimal employee options—a fixed pattern provided to all employees without much choice in benefit levels or composition; based on what management thinks would best satisfy the needs of the "average" employee with little variation.

2) traditional design with certain employee options—a fixed pattern of benefits that allows employees some choice within established benefits. Employees may choose types and levels of benefits within the existing programs paid all or partly by the employer.

Some choices may include optional levels of supplementary group term life insurance, death or disability benefit under pension or profit-sharing plans, group medical expense coverage for dependents, an Health Maintenance Organization (HMO) option, section 401(k) cash or deferred election, cash distribution, investment options under profit-sharing, thrift, and capital accumulation plans. Employer's make such benefits available to employees at favorable group rates. Some benefits are purchased by employees from incomes after paying Federal income taxes.

3) "cafeteria" compensation—a flexible benefits program permits employees to choose on a before-tax basis among various levels and forms of certain nontaxable benefits and cash compensation, subject to an overall maximum amount. This plan offers the most flexibility in employee benefit plan design. Employees can tailor a benefit plan most relevant to their own particular needs—changing the structure of their benefits to meet needs over their life cycles. The plan may also increase the value and appreciation of benefit programs by employees; improve employee morale and performance; boost economic efficiency of the allocation of employer compensation expenses resulting from greater choice; and involve employees and families in selection of benefits, increasing their understanding and appreciation of the benefits and their cost. A flexible plan can provide the potential for the control of future benefit costs.

In terms of disadvantages, employees' perceived needs may vary from actual needs and lead to unrealistic choices among benefits; complexity of plan and related administrative expenses may increase; benefit costs (and the cost to implement them) may climb; greater "adverse selection" may result from employees who choose popular benefits but ones that the cooperative may not be able to sponsor; problems may occur regarding insurance group underwriting requirements and practices; and employees may simply be unable or unwilling to make the correct choices.

Financing Benefits

Benefits can be financed three ways: 1) Noncontributory where employer pays all. Advantages are: all eligible employees are covered; tax efficiency; group purchasing; avoids employee dissatisfaction with payroll deductions; ease and economy of administration; and possibility of greater employer control of plan. 2) Contributory where employer and employee share costs. By contributing to financing, employees gain more coverage and/or higher benefits; employees have a greater appreciation of the plan and won't take benefits for granted; less abuse of benefits; more effective use of employee benefits; options for employees; and encourages self-reliance. 3) Employee pays all of costs. The advantage of the contributory and employee-pay-all methods is that it lessens the financial burden of the cooperative.

SUMMARY

Cooperatives need to set realistic benefits and salaries for their employees. At the same time, benefits and salaries should attract the type of workers the cooperative needs. There are no set guidelines.

All businesses must consider certain factors. They may result from external influences like the labor market; Federal and State Government policies and regulations; competitive background; internal factors like expenses of the cooperative; educational background of employees; skill; physical ability (required by job); and experience of the employee.

There are tools available in developing equitable pay structures. Job evaluations may be developed through ranking, classification, factor comparison, and point. Each has advantages and disadvantages.

Benefit plans must be evaluated. Benefit planners should consider employees' needs and expectations, cost escalations, tax considerations, benefit quality, and actions of competitors. Each cooperative must answer questions. What benefits

should be offered and how financed? What conditions must be met before an employee is eligible for benefit? These questions can be answered through employee interviews, monitoring benefit activities of other area businesses, Government agencies, and reading benefit publications.

Some benefits cooperatives may offer their employees include retirement, health insurance, life insurance, disability insurance, paid vacations, holidays, sick pay/short-term disability, and educational assistance.

Cooperatives must use all available resources in deciding what salaries and benefits will be offered. Job evaluations, Government agencies, other area cooperatives, employee interviews, etc., are some of the resources cooperatives must consider in developing an equitable salary structure and maintaining a balance between needs of the employee and the cooperative.

APPENDIX

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Agricultural Cooperative Service (ACS) provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

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